

Western sanctions and their impact on Russian oil & gas projects

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Sanctions

- Political and economic restrictions

Introduced by:

- USA, European Union, Canada, Australia, Japan

Reason:

- Russian position on referendum in Crimea
- Reunification with Crimea
- Crisis in Eastern Ukraine

First introduced in:

- March, 2014

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US sanctions regulations:

- Presidential executive orders
- Relevant acts adopted by executive bodies (OFAC, BIS, DDTC)

EU sanctions regulations:

- Acts adopted by the Council of the European Union

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Structure of US sanctions:

- Diplomatic restrictions
- Visa bans and asset freezes
- Sectoral sanctions
 - ✓ financial
 - ✓ energy (oil and gas sectors)
 - ✓ military

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Structure of EU sanctions:

- Diplomatic restrictions
- Visa bans and asset freezes
- Economic sanctions
 - ✓ financial
 - ✓ energy (oil sector)
 - ✓ military

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Key limitations (both US and EU) in oil sector

- Export restrictions covering:
 - ✓ exploration or production for deepwater
 - ✓ Arctic offshore
 - ✓ shale projects
- Effect:
 - ✓ withdrawal of ExxonMobil, Total, Shell, etc. from respective projects

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Limitations in gas sector

- USA:
 - ✓ export licensing requirements:
 - *exploration or production for deepwater*
 - *Arctic offshore*
 - *shale projects*
- EU:
 - ✓ gas projects are not subject to direct limitations, however export of certain technologies may be subject to prior authorization

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Scope of application

- **US sanctions are binding:**
 - ✓ upon US persons (US citizen, permanent resident alien, US entity (including foreign branches), or any person in the US)
 - ✓ within the United States
- **EU sanctions are binding upon:**
 - ✓ EU citizens and companies
 - ✓ branch offices of non-EU companies located in the EU

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Scope of application

- **Direct supply** (export of prohibited products directly to Russia)
- **Indirect supply** (sale of prohibited products to third countries, where the ultimate goal is to have those products transferred to a Russian counterparty)

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Exemptions, reservations, «loopholes»

- Authorization by competent US and EU bodies
- Contracts signed prior to introduction of sanctions
- Extension of chain of contractors (involving 3rd countries)
- Development of corporate structures

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Recent developments

- Updating «sanctions lists»
- Extension of sanctions terms

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Factors having impact on oil & gas projects

- Financial restrictions
- Foreign technologies
- Possibility of expansion of current limitations

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Conclusions

- **Oil sector is under direct threat**
- **LNG projects are not subject to limitations**
- **Existing projects continue developing**
- **Sanctions legislation provides for exemptions and reservations**
- **Using “loopholes” and alternative methods of overcoming restrictions involve risks**